

ORIGINAL

OPEN MEETING AGENDA ITEM



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Arizona Corporation Commission

DOCKETED

MAY 10 2012

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6 Attorneys for Arizona Public Service Company

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 **COMMISSIONERS**

10 GARY PIERCE, Chairman
BOB STUMP
11 SANDRA D. KENNEDY
PAUL NEWMAN
12 BRENDA BURNS

13 IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
14 COMPANY FOR A HEARING TO
DETERMINE THE FAIR VALUE OF THE
15 UTILITY PROPERTY OF THE COMPANY
FOR RATEMAKING PURPOSES, TO FIX
16 A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
17 SCHEDULES DESIGNED TO DEVELOP
18 SUCH RETURN,

DOCKET NO. E-01345A-11-0224

REQUEST FOR CLARIFICATION

19 Arizona Public Service Company ("APS" or "Company") appreciates
20 Administrative Law Judge Farmer's recommendations in this matter and takes no
21 exception to her proposed Opinion and Order ("ROO"). Among other important things,
22 the ROO recommends that the rate case be left open in two instances so as to allow
23 certain issues to be addressed before the end of the four year rate moratorium in 2016.
24 Through this request, APS seeks to add language to the ROO that would keep this
25 docket open to resolve one other specific item: a request by APS to amend the
26 Company's Power Supply Adjustor ("PSA") Plan of Administration in light of the
27 following recently-discovered issue.
28

1 As part of its "Global Warming Solutions Act" (California Assembly Bill 32),
2 California has imposed a greenhouse gas cap and trade program. That program requires
3 entities who sell energy into California to purchase CO2 "allowances" from the
4 California Air Resources Board, and remit those allowances to the California
5 Independent System Operator in proportion to the energy sold beginning on January 1,
6 2013. For APS, the cost of the allowance would be incurred solely for the purpose of
7 and in conjunction with making an off-system sale into California, just like the fuel and
8 purchased power costs that are currently recovered through the PSA. When APS sells
9 energy off-system, the net revenue generated credits the PSA and lowers the amount that
10 APS customers pay for fuel. The off-system sales revenue credit is calculated in two
11 parts: the revenue generated by the off-system sale and the cost incurred to make that
12 sale. Under the Settlement Agreement, 100% of the difference between the cost of the
13 sale and the revenue it generates reduces the PSA charge, entirely to the benefit of
14 customers.

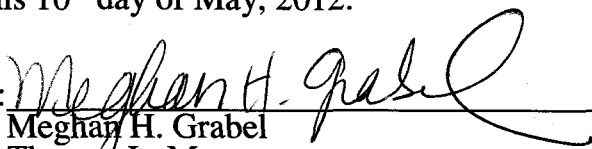
15 Until recently, APS believed that the cost of the CO2 allowance would be
16 recovered through a FERC account already authorized for recovery through the PSA
17 (Account 411 – Sales of Emission Allowances). However, FERC's Chief Accountant
18 provided guidance to APS that these allowances should instead be recorded in a
19 different account: Account 509 – a FERC account not specified under APS's existing
20 PSA Plan of Administration. If APS cannot net the cost of CO2 allowances against the
21 gross revenues received from off-system sales into California, the Company would lose
22 money on every megawatt-hour sold in California. *See* example attached as Exhibit A.

23 Although the intent of the Settlement's proposed PSA is for APS customers to
24 receive all the benefit of off-system sales, it was neither intended nor would it be
25 reasonable to expect APS to absorb a loss on all such sales into California. APS would
26 instead likely sell into other markets where the net revenue may not be as high and thus
27 be less beneficial for customers.
28

1 To address this issue and enable APS to continue to make off-system sales into
2 California for the full benefit of APS customers before the Company's next rate case,
3 APS asks that this rate case docket be held open to allow APS to seek to modify the PSA
4 Plan of Administration and add Account 509 to the list of FERC accounts authorized for
5 recovery through the PSA. This change would be made for the sole purpose of
6 recovering the cost of CO2 allowances. APS will apply to make this change in
7 sufficient time for it to take effect in conjunction with APS's February 2013 PSA
8 compliance filing.

9 See proposed ordering language attached as Exhibit B.

10 RESPECTFULLY SUBMITTED this 10th day of May, 2012.

11 By: 
12 Meghan H. Grabel
13 Thomas L. Mumaw

14 Attorneys for Arizona Public Service Company

15 ORIGINAL and thirteen (13) copies
16 of the foregoing filed this 10th day of
May, 2012, with:

17 Docket Control
18 ARIZONA CORPORATION COMMISSION
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19 Phoenix, Arizona 85007

20 COPY of the foregoing mailed/delivered this
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Exhibit A

BEFORE CALIFORNIA CAP AND TRADE

Sales Revenue \$	Fuel Cost \$	CO2 Allowance Cost \$	Net Margin \$
(Account 447)	(Account 501)	(Account 509)	
100	50	0	50

AFTER CALIFORNIA CAP AND TRADE

Sales Revenue \$	Fuel Cost \$	CO2 Allowance Cost \$	Net Margin \$
(Account 447)	(Account 501)	(Account 509)	
105 ¹	50	5	50

**AFTER CALIFORNIA CAP AND TRADE WITH NO RECOVERY OF CO2
ALLOWANCE THROUGH THE PSA**

Sales Revenue \$	Fuel Cost \$	CO2 Allowance Cost \$	Net Margin \$
(Account 447)	(Account 501)	No Recovery	
105 ¹	50	5	55 ²

1. Assumes market prices increase to reflect the cost of carbon credits.
2. If the CO2 allowance cost is not netted against this higher level of margin for PSA purposes, APS would pass more off-system sales margin through the PSA than it actually realizes on the sale (\$55 compared to \$50, in the above example).

Exhibit B

Insert new Ordering Paragraph at page 46, line 10:

IT IS FURTHER ORDERED that this rate case docket shall be held open to allow APS to seek to amend the PSA Plan of Administration in order to reflect the inclusion of FERC Account 509 so as to permit Arizona Public Service Company to offset the cost of CO2 allowances needed for off-system sales to California against revenues received from such sales.